

# Customer loyalty in hospitality industry marketing essay



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Customer loyalty programs are a 21st century concept and there are multiple researchers which tried to define it in various manners and from different perspectives. The Cambridge dictionary best describes loyalty as the quality of being loyal, whilst loyal stands for firm and not changing in your friendship/support for a person or an organization. An official definition is given by the American Marketing Association on its website, which outlines the loyalty programs as “ continuity incentive programs offered by a retailer to reward customers and encourage repeat business”.

Loyalty is a key word for the study and will be often met throughout the paper. It is important to offer as many solutions to a problem as to present more than one opinion on such a vast subject as loyalty. This chapter will offer the coverage for revising a nowadays must in hospitality industry, the customer loyalty program. The main focus is to discuss the existing data, journals, articles, books and to clear the field for important issues that will arise from existing studies. Also this review will subscribe to the specific hotel loyalty programs and discuss about the description of the existing programs in the industry. The author will make use of existing research and will make first steps into the discussion regarding the efficacy of customer loyalty programs and thorough this study he will try to outline the existent material on this issue.

One important fact that made the author to decide in making a note before the study started was that even though a requirement for contemporary research existed, the amount of research and the relevancy of the ideas to the present study that Mark D. Uncles and Grahame R. Dowling had input into the literature, had to be kept within the references regardless of the <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

period their studies were published. They are also referenced numerous times within the analyzed data.

## **2. 1. 1 Loyalty is positivism**

Reichheld (2002) promotes the definition of loyalty as follows:

“ a loyal customer is one who values the relationship with the company enough to make the company a preferred supplier. Loyal customers don't switch for small variations in price or service, they provide honest and constructive feedback, they consolidate the bulk of their category purchasers with the company, they never abuse company personnel and they provide enthusiastic referrals.” (page 126).

Reichheld's theory suggests positivism when relating to loyalty and considers customer loyalty programs as a win-win situation for the customer and the company, a point of view deducted from other researchers also. Some of the advantages from building customer loyalty are positive word of mouth, increased revenue and mainly a familiarization with the service for the customer.(Charania 2011, (Dowling & Uncles, 1997). There are also critics regarding the loyalty programs that do not consider customer as wishers to build relationships with corporations (Charania 2011).

Another definition of loyalty programs concludes that they are “ an integrated system of marketing actions that aims to make member customers more loyal” (Leenher, Heerde, Bijmolt & Smidts, 2007). This is a simple idea that also made it to the minds of Gomez, Arranz and Cillan (2006) which regarded it more as tool for retaining customers.

## **2. 1. 2. Loyalty through technology**

The literature on this subject has outlined that the existence of loyalty programs is strictly tied to the evolution of economy and technology.

Dorotic, Bijmolt and Verhoef (2012) mention that: “ The boom in information technology and the shifting of firms toward customer-centric focus have prompted the development of customer relationship management programs, also known as loyalty programs (LPs), to encourage customer loyalty.”

Further on to this topic, Uncles and Dowling talk about the establishment of loyalty programs as the direct results of the evolution of customer relationship management tactics which thousands of companies adopted.

Also they describe loyalty programs as being present in many areas, from US airlines and hotels to German car companies and many other areas. In order to understand what customer relationship management is, the search for a definition made sense. Relationship marketing can be expressed as the change of focus in marketing from transactions to relationships (Rowley, 2005; Foss and Stone, 2001) Rowley (2005) further asserts that customer relationship marketing is encapsulated in the concept of customer loyalty. Charania, (2011) also considers the help of evolution as the tool through which loyalty programs were made possible. Charania (2011) concludes that the technological advancements made customer loyalty programs user friendly and cost effective.

## **2. 2 Loyalty programs**

Dorotic, Bijmolt and Verhoef have submitted a research that wants is satisfying for the study of customer loyalty programs. The main purpose for their study was to express certain aspects that can assist a researcher into

getting the knowledge on loyalty programs. Into this note, this review will adopt some definitions that can make clear aspects about loyalty programs and that can add value to the research. These can help explain some of the basics about customer loyalty and the perception of the relationship between customer and company.

First of all, Dorotic, Bijmolt and Verhoef have indicated that a loyalty program's main purpose is to foster loyalty, reward members' behavioral and attitudinal loyalty and therefore encourage customer retention and customer share development. Through relationship building, successful loyalty programs encourage a consumer to purchase frequently from the program provider, increase purchase amounts over time (e. g. cross-purchases, upgrades) and increase the share of wallet (SOW) at the focal provider/brand (Stone et al. 2004). This was also observed by Tideswell & Fredline (2004) which recognized that organizations should seek to establish a relationship with their customer.

Loyalty programs are:

- Structured: Customers must (formally) become loyalty program members to obtain benefits, which imply that loyalty programs should be membership-based. Therefore, the loyalty program provider can identify the loyalty program member and use the information obtained through the loyalty program to manage the relationship with its members.

- Long term: A loyalty program is generally of a long term use due to the implications of it, the customer's benefit and the company's benefit out of a customer loyalty program appears after enduring time. Preeta and Piyush <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

(2008) have identified also this long term characteristic that can build relationships.

- Rewarding: A loyalty program's main purpose is to reward and should reward members for their loyalty that can be calculated and nominated through number of stays/month in hotels, miles in airlines, and so forth. Usually this is transformed in some sort of currency that can be used to acquire future services, goods, and also discounts. Loyalty program members usually have an account online, and on file, or a card with their name printed. Dorotic, Bijmolt and Verhoef call these benefits, which can be perceived as " multiple advantages, including utilitarian (e. g. economic savings, convenience, gifts), hedonic (e. g. personalized treatment, exploration of new products, entertainment) and symbolic (e. g. recognition by firm, social status, belonging) benefits "

- Ongoing marketing efforts: A loyalty program provider must consider continuous efforts in order to understand and cater to their customers needs. This can be done with the help of event, personalized offers and emails sent to each in individual, which can always mean a true insight in the customer's opinion on the loyalty program.

In order to define customer loyalty the literature shows relevance in observing attitude and behavior (Bowen & Chen 2001). The behavioral measurement is in touch with the quality of consistent purchase. The study of Bowen and Chen discusses that repeat purchase is not equal with loyalty. Also the direction of attitudinal measurement reveals the emotional connection and attachment for a customer that he may have with a property

but this does not necessarily mean that he will choose the hotel for his stay. There is also the composite measurement which combines the first two approaches.

See Table 1. in Appendices

### **2. 2. 1 Loyalty Program Typology**

Growing from a stamp collecting program where the rewarding process offered tangible products in exchange to the stamps returned loyalty programs became more complex also adding intangible rewards for their customers to benefit from. Berman (2006) identified that loyalty programs cater to the companies under different ways, and can be divided into 4 different formats. Charania (2011) considers a focus on Type II, III and IV programs best suitable for the hospitality industry.

Type II programs are typical in the F&B industry, with focus on quantity discounts and the customer is the one managing the program. The program does not focus on frequency or emotional loyalty. With each item purchased consumers are provided with a punch and they are being compensated with a reward for each 'nth' purchase. Type II programs offers to the customer that purchased more the same exact reward as to one that purchased only one item. This program is considered cost effective and easy to manage but the down points are the poor understanding of the customer and also inexistence of data collection. Also, Type II is easy to replicate by the competition.

Type III programs are offered by most airline and hotel chains. In order to track all purchases and store information about number of points that can be <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

later used for rewards there is a database collection in action. This benefits the company because it leads to a better understanding of the customer and even generates a higher sense of loyalty among them, even though there is an increased cost on managing the database collection.

In the Type IV programs customers are divided into segments based on the frequency of their purchase and there is a need of a comprehensive database that can provide important demographic information and purchase history. This type of loyalty program is more cost effective in comparison to the traditional mass media because the distribution of certain information such as coupons and new offers are sent only to a targeted customer.

Berman's type IV is a focused on targeted communication and marketing made through email newsletters and keeping track of online purchases, critical elements to many customer loyalty programs used by hotel, airlines and F&B outlets

In addition to the 4 existing types in Berman's model there is a development for hybrid programs, which bring together elements from Type II, III and IV loyalty programs. The concern is that without a careful and strategic planning the objectives of the programs can overlap. The major challenge is in fact, engaging in a race to ensure overall loyalty program effectiveness.

See Table 2 in Appendices

## **2.3 Customer loyalty in hospitality industry**

“ For many years, the international hotel industry has engaged in a range of marketing and business strategies, under the umbrella of ‘ relationship marketing,’ to establish a long-term, ongoing rapport with its guests”  
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(Tideswell & Fredline, 2004). Therefore, in the heart of the growing and increasingly competitive American economy, the hotel industry had to look for new ways to engage into attracting more customers and therefore increasing the profit. Charania (2011) argues that “ In the face growing competition, the hospitality and tourism industry adopted loyalty reward programs from the supermarket industry as a relationship marketing tool in the early 1980s. The programs were highly popular among consumers and resulted in their wide spread proliferation throughout the industry with many firms initiating replicate programs as a means to maintain competitive parity without considering the strategic implications or overall effectiveness of loyalty programs in stimulating repeat patronage.”

The presence of loyalty program's is also noted in comments by Kim (2004) which suggests this phenomenon of rewarding customers for their loyalty is increasingly common in many segments of the travel industry, including airlines and hotels. In the context of the tourism and hospitality industry, many of the initiatives taken by organizations to foster such loyalty have generally involved transactional tactics revolving around schemes to reward loyalty such as “ frequent flyer programs” and “ hotel rewards points” (Tideswell & Fredline, 2004).

Charania (2011) suggested that “ the programs were highly popular among consumers and resulted in their wide spread proliferation throughout the industry with many firms initiating replicate programs as a means to maintain competitive parity...” In a further comment at this address Tanford, Raab and Kim (2011) agreed that today, most major hotel chains and many smaller chains use loyalty programs to attract and retain customers. There <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

are certain dominant chain hotel groups based US which also operate worldwide that offer customer loyalty programs, like Wyndham Reward Points, Accor's A Club, Starwood's Starpoints, Hilton HHonors, Hyatt's Gold Passport, Intercontinental Priority Club and Royal Ambassador, Marriott Rewards. The importance of customer loyalty was also suggested by (Tanford, Raab, Kim, 2011; McCall and Voorhees, 2010) which concluded that customer loyalty is a primary goal of hotel operators, most of whom have reward programs designed to attract and retain hotel guests.

### **2.3.1 Growth within the industry**

As in comparison with the hotel industry, the airline industry, loyalty programs were initiated soon after deregulation with the introduction of American Airlines' AAdvantage program in 1981, and were launched in the hotel industry by InterContinental in 1983. In the past 30 years, the AAdvantage program has grown to 57 million members as of 2009 with the airline industry loyalty program market boasting a membership base of 254 million. Meanwhile, hotel loyalty programs have attracted 92 million members globally (Charania 2011; DeKay, Toh, & Raven, 2009).

There are reports that indicate the fact that there is growth within the loyalty programs. Barsky filled up an article in 2008 which concluded that membership in reward programs is an important factor for many guests in their choice of hotel brand, and its role had increased steadily, growing from 32% in 2002 to 37% in 2007. Today, nearly all hotels, restaurants and airlines offer some type of incentive to encourage loyalty and more multi-merchant collaborations are being established, growing both in strength and popularity (Charania, 2011; McCall & Voorhees, 2009; Capizzi & Ferguson, <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

2005). The numbers indicate that loyalty programs within the global hospitality industry have hundreds of millions of members, with total US membership at 973 million members, (an average of four memberships per person) and loyalty programs continue to grow at double digit rates, 12% in 2008 (Charania, 2011; Capizzi & Ferguson, 2005; DeKay et al., 2009). Hlavinka & Sullivan (2011) have outlined a survey that the COLLOQUY's website made in the year 2011 which shows that there were more than two billion loyalty program memberships in 2011, in all the industries around the American continent with implications in the hotel industry.

### **2. 3. 2 Customer loyalty programs and a sense of community**

The existence of a customer loyalty program is based entirely on the characteristic that it works. The efficacy of a customer loyalty program depends on many factors, but the main issue that is being raised is if customer loyalty programs really enhance loyalty (Rosenbaum et al 2005; Uncles et al 2003; Leenheer et al, 2007; Bowen & Chen 2001; Saili et al 2011). What is sure though, is that the sense of loyalty is given by customers, and also they are the ones that settle if a customer loyalty program is valuable (Saili, Mingli and Zhichao 2011). The researchers found out that in the uprising economy serious doubts on the value of customer loyalty programs exist. (Liu and Yang 2009; Dowling and Uncles 1997; Shugan 2005)

Rosenbaum, Ostrum and Kuntze (2005) proposed a study which regarded loyalty programs with a sense of community. Thoroughly explained, the information established that for a customer, having a sense of community attached to loyalty program is beneficial; therefore customers are more

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easily retained. Offering social interaction and promoting it for the guests can be a plus in enhancing customer loyalty. The sense of community is in fact suggested by organizational support (Rosenbaum et al 2005) in any given situation when the guest is involved, a gathering or a sponsored program. In the process of achieving a sense of community customers obtain four benefits when joining one specific group (Rosenbaum et al 2005; McMilian and Chavis, 1986):

**Membership.** It is the quality of a customer that offers him the specific status of belonging to a group. This gives the customer the sensation of belonging to a group and it's valued by him. There are two possible situations here, decided by the paid value into obtaining this membership, one could be when acquiring an expensive item, that offers you the chance to enter an imagined VIP status, or when the cost of the customer loyalty membership is free and this may not have the same effect on the customer, this could create a neutral feeling.

**Influence.** This benefit mentions about the possibility of one individual from the loyalty program to exercise some sort of influence over design for eg, and that also, the group that he belongs to, has some sort of influence over him. “ Loyalty programs can promote influence by offering members the ability to communicate to senior managers or to a design team. For instance, Harley-Davidson's and Jeep's program members provide valuable consumer feedback to senior management and corporate engineers at members-only events (Muniz and O'Guinn, 2001; McAlexander et al., 2002).”

Integration and fulfillment of needs. This benefit refers to the members feeling a sense of reward from the group they belong to. McMillian and Chavis (1986) have concluded a general desire from their customers: status and self competency, like gathering knowledge from the other members.

Shared emotional connection. This concept refers to members desiring to fashion the organization's identity, or history, into their own self identity (McMillian and Chavis, 1986 cited in Rosenbaum et al 2005). Harley-Davidson is well known as a preferred brand between its customers but this extends so far beyond the acquisition of the product that it can represent the image of the customer, and vice versa (Oliver, 1999 cited in Rosenbaum et al, 2005).

## **2. 4 Polygamous loyalty**

Researching the topic of customer loyalty program into envisioning this sense of community has brought upon a controversial idea formulated by Charania (2011) which opens the discussion on polygamous loyalty. In this case, customers don't see their loyalty targets as thoroughly attached relationships but as part of the preferred group of brands. Considering the desired effect of a customer loyalty program, which is in absolute loyalty we can confirm that the possibility of having 100% loyalty among customers is not possible (Charania, 2011). Uncles et al (2003) identified that in hospitality industry the guests tend to have polygamous loyalty towards the companies, and this is based on various reasons. The definition of polygamous loyalty is given Dowling & Uncle (1997) as " the act of demonstrating loyalty to several brands simultaneously" (page 74). This has serious aspects because it transforms the mechanisms of a loyalty program <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

into a defensive one, trying to retain customer, rather than an offensive one which stimulates loyalty (Uncles et al, 2003). This switches the focus of a company into becoming part of the preferred group of brands rather than having a monogamous relationship with their customers. “ Consumers in the hospitality industry have justified reasons for polygamous loyalty such as the desire for variety and the lack of flexibility of many programs and thus it is unrealistic to expect guests to become single brand loyal” (Uncles, et al., 2003)

In a separate note, Oliver (1999) identified the effect of polygamous loyalty or multi-brand loyalty as an obstacle to loyalty. This is categorized as a consumer idiosyncrasy, and refers to the customer desire for variety.

## **2. 6 Summary**

A customer loyalty program is a tool for making guests more loyal (Leenher et al, 2007). But having a customer loyalty program is not always a happy situation (Uncles et al, 2003) and with the nowadays growth within hospitality industry (Charania, 2011) the situation is an unstable one. Having to deal with customers that pretend to be loyal to your brand but which are in fact loyal to other brands too, as discussed in the previous subchapter and trying to develop efficacy is not an easy task for chain hotels marketers. The composed literature review is showing that a customer loyalty program is more than an evidence of loyalty, but a battle for retaining customers (Gomez et al, 2006). The evidence of efficacy is within the customers and the way they spend their time and money. Having the literature base in mind, the author will continue in the next chapter with an insight, by making a

research in the area of customer loyalty programs, to make an evidence of opinion, suggested by a targeted population.

In a sense of polygamous loyalty and a paradox marketing environment the existence of comparisons is inevitable. The next chapter will try to assess the existence of two different customer loyalty programs and consider their efficacy in today's forever changing marketing environment.

## **Chapter 3.**

### **Methodology**

#### 3. 1 Research design

Into understanding the phenomenon that this study is presenting, the previous literature review chapter provided an overview of loyalty programs. The third chapter captures the research methodology of the dissertation and holds in regard ways of showing if efficacy of certain chain hotel loyalty programs is demonstrated and how.

The shape that this dissertation will take is empirical research; starting with a conceptual/literature base revolving primarily around journals, books and articles and online libraries and ending with the primary research, which represents collection of data that does not already exist. The author chose as research method the quantitative gathering of data. Creswell (2009) disputed that in quantitative studies the research should be discovering relevant true statements and the method is through questions and hypotheses. In order to suggest a better explanation even at an unsure level

certain hypotheses are also presented by the author in this study as following:

Hypotheses 1a.

Guests are not influenced by customer loyalty programs when choosing a hotel.

Hypotheses 1b.

In more than 50% of the cases, the customer loyalty program influences directly a guest's choice when booking a hotel.

Hypotheses 2.

More than 50% of the customers believe that the customer loyalty program is a good indicator for hotel's standards.

Hypotheses 3.

More than 70% of the customers are accepting the idea that an overall idea of the hotel is given by the customer loyalty program.

Hypotheses 4.

More than 50% of the customers make use of their membership with a customer loyalty program on an annual basis.

Hypotheses 5a.



Not even 70% of the customers are satisfied with their current loyalty program.

Hypotheses 5b.

The percentage of customers that are satisfied with their current loyalty program is over 70%.

Hypotheses 6a.

Less than 60 % of the customers are considering to reccomend their current loyalty program.

Hypotheses 6b.

The probability that customers would reccomend their loyalty program is over 60%

Hypotheses 7.

In more than 50% of the cases customers appreciate intangibles over tangibles/service over physical benefits.

Hypotheses 8.

More than 50% of the customers adopt the belief that enrolling in a customer loyalty program also enrolls them in a community

Hypotheses 9.

More than 50% of the customers have the belief that they are connected with the other users of the same customer loyalty program

Hypotheses 10a.

Hyatt Gold Passport from Hyatt does not qualify as better than Hilton Honors from Hilton Hotels in offering loyalty program efficacy to its customers.

Hypotheses 10b.

Hyatt Gold Passport from Hyatt can offer better efficacy of their customer loyalty program rather than Hilton Honors from Hilton Hotels

### 3. 2 Sampling design

As described before, the research design is based on a survey which will be completed by a certain part of the population. The sampling for this study will be met by expediting the survey through the online. Emails and social media will be used to establish a connection with the participants and also the website [www. questionpro. com](http://www.questionpro.com) will host an online survey that has the same purpose of gathering data from the participants into the interest of the study. To ensure that the sample is constructed and used in a relevant manner, the first question of the survey is a logical one that stands as separate for participants. This method of screening with respect to product usage can eliminate inappropriate elements (Malhotra, 2004)

A research is constructed at a design level which is committed to performing the desired effect by the author. In this paper, a quantitative collection of data approach is used to gather information from a database of participants

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which will undertake a similar questionnaire. The target population is a statement of who should and should not be included in the sample (Malhotra, 2005). The following specifications are to be met:

Age 18 or older

Frequent travelers and hotel users

Current customer loyalty program members

The sample size regarding the quantitative research is not precise, and could not be established previously due to the nature of the research, the short period of time and also due to the lack of resources that can be obtained in the idea of conducting a sturdy research. Also the willingness to participate in the study was another factor to take in consideration when building up the sample size. The author took in consideration all the possible outcomes and the optimistic approach was to distribute the survey in a manner that can reach as many individuals as possible to this case. A number of 100 respondents were set as a target for the survey even though quantitative research using the online will definitely persist as a challenge regarding the willingness of the subjects to partake in the research. The author expected a ratio of 1 out of 10, meaning that one subject will do the survey out of 10 subjects that are enquired to complete the survey.

### 3. 3 Instruments for the research.

As previously stated the data collection will try to gather relevant data from the proper targeted population and will offer values into understanding the phenomenon that the study has taken in consideration. The instruments <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

used for the data collection are inspired by the existing academic and represent creative and proper ways of applying research in the use of making the desired discoveries.

Further explained in this chapter are the secondary and primary data collection which are both necessary in the process. With the following chapter on the way, which will comprehend the analysed data and the explained outcomes of the research, the following subchapters are detailed information devoted to inspire understanding for the reader.

### 3. 3. 1 Secondary data

The building of the research plan walks the author through certain sources of information. It is undeniable the fact that books are written from other books, and that in order to pursue a primary research there is this need of existing information that can offer support. Considering the first chapter as integrally secondary data, the methodology chapter does not follow the same pattern. There are certain information that has been extracted from the Manchester Metropolitan University online library who offers books, articles and journals in accordance with the subject and with the use of key words ; “ loyalty programs”, “ customer loyalty programs”, “ chain hotels loyalty programs”, “ efficacy”, “ comparison of efficacy”, “ customer relationship management”, “ hospitality”, “ loyalty”, with also many combinations of such terms which were also used into finding desired documents and writings, some of them serving as repected information and some of them serving through their reference list, which later proposed some readings ant titles that were considered proper data for the study, all

of these unmistakably are considered the main source and procedure of evaluating and understanding data. Other sources of gathering relevant information were the Emerald website, The Sage Pub Journals and another website from Science Direct.

In order to assure a proper research design the book of Naresh K. Malhotra, *Marketing Research: An applied orientation 4/E* from the year 2004 has been used as a guidance with ideas and paragraphs that offered assistance in building this chapter.

### 3. 1. 2 Primary data

The questionnaire is a set of questions with the purpose of obtaining information from respondents, information that will be analyzed through statistical procedures. It is the main tool used in the quantitative-type research and it starts by elaborating a theory which is later on tested on the sample of subjects. Usually the final report that comes out of the quantitative research consists out of an introduction, literature and theory, methods, results and the discussion (Creswell, 2004). “ Surveys include cross-sectional and longitudinal studies using questionnaires or structured interview for data collection, with the intent of generalizing from a sample to a population. “(Babbie, 1990 cited in Creswell, 2009)

The online is the main source of participants and the survey was designed by the author using Office Word, and a pilot test with 24 questions was set to follow (see Appendix 3. 1.). From the 5 respondents that participated in the pilot testing feedback was gathered and the survey was transformed into an online based survey that was later on directed towards the target population <https://assignbuster.com/customer-loyalty-in-hospitality-industry-marketing-essay/>

(see Appendix 3. 2 for the final form of the survey). The pilot testing was self administered and had as a main goal the introduction of the research to the public. This led to certain changes in the survey, the rewording of a few questions and to cutting the number of questions to a total of 18.

The first question in the survey has a screening purpose, and tries to eliminate an error of irrelevant subjects and data. The respondents are asked if they partake into a customer loyalty program and a negative answer suggests to the respondents to stop the survey. The first part of the survey targets the customers in relationship with their customer loyalty program. Some of the questions are using the Lickert-type scale in order to determine the opinion of the subject in regarding with some aspects in the hotel. Varying from “ least likely” to “ very likely” and from “ least important” to really important” the questions are built in a short and concise manner. Also the q-technique factor is being involved in the process, with the idea that people do not prefer to rate in accordance with